

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6203

BILL NUMBER: HB 1254

NOTE PREPARED: Nov 20, 2006

BILL AMENDED:

SUBJECT: Excise, Gaming, & Conservation Officers' Fund.

FIRST AUTHOR: Rep. Kuzman

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill makes several changes affecting the Excise Police, Gaming Agent, and Conservation Enforcement Officers' Retirement Fund and has the following provisions:

- (1) increases the participant contribution from 3% of the first \$8,500 to 4% of the participant's annual salary;
- (2) increases from 1% to 1 2/3% the percentage of average salary used in computing a participant's annual retirement allowance for years of service greater than 25;
- (3) allows a participant who is at least 50 years of age and has at least 25 years of creditable service to retire with a normal (unreduced) benefit;
- (4) provides that a participant receiving a line-of-duty disability benefit is entitled: (A) to receive a disability benefit for the remainder of the participant's life; and (B) to have the benefit recomputed as a normal benefit when the participant becomes 60 years of age;
- (5) allows a participant to purchase service credit for service earned in the Public Employees' Retirement Fund (PERF), the Indiana State Teachers' Retirement Fund (TRF), the State Police Pension Trust (SPPT), or the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Police and Fire Fund);
- (6) authorizes an employer to pay all or a part of the participant's contribution; and
- (7) increases from \$5 to \$10 the Department of Natural Resources annual fee for each boat required to have boat excise decals.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2007.

Explanation of State Expenditures: *Summary:* The total estimated impact from the changes to the State Excise Police, Gaming Agent, and Conservation Enforcement Officers' Retirement Fund is a net increase in annual expenditures of \$42,000, representing a 0.3% increase in annual funding as a percent of payroll, and an increase in unfunded accrued liability of \$4.52 M.

The estimated impact on the retirement fund for each of the proposed changes is listed in the table below.

	Increase employee contribution 4% all Salary (1)	Increase salary % from 1% to 1 2/3% over 25 years of salary (2)	Age 50/25 yrs of service/normal retirement no reduction (3)	Additional Service while on Disability (4)	Total Impact
Estimated Increase in Unfunded Accrued Liability	0	\$3,370,000	\$715,000	\$286,000	\$4,520,000
Estimated Increase in Employer Annual Funding	(\$460,000)	\$330,000	\$80,000	\$32,000	\$42,000
Estimated Increase in Annual Funding as a % of payroll	(3.4%)	2.5%	0.6%	0.3%	0.3%
Change in Funded Status	No Change at 69.5%	Decrease from 69.5% to 66.0%	Decrease from 69.5% to 68.9%	Decrease from 69.5% to 69.4%	Decrease- 69.5% to 64.8%

Authorizing the employer to pay part or all of the participant's contribution will have an indeterminable impact and will depend the action taken by the employer. The funds affected for this entire proposal are the state General Fund, the Fish and Wildlife Fund, and the Enforcement Fund.

Purchase of Service Credit Provision - The cost to purchase service credit for service earned in PERF, TRF, the State Police Pension Trust, or the 1977 Police and Fire Fund for any participant will approximate the actuarial present value of the benefit attributable to the service credit purchased. Any increase in liability as a result of such a purchase of service would be offset by an equal increase in assets from the actual purchase of service. Therefore, the cost to purchase service credit under this proposal should be actuarially neutral to the fund. It should be noted that the proposal does not recognize any additional liability due to the purchased service until the purchase has been 100% completed.

Background on Purchase of Service Credit: This provision can result in increased future payouts from the funds listed in certain situations, as described below.

The bill provides that the purchase of service credits by a participant must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a

contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member may wish to purchase service credit and the potential impact to the funds are identified below.

If a member wants to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments (COLAs) that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the fund. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the fund.

If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary at the time of purchase before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

Explanation of State Revenues: Increasing the boat fee from \$5 to \$10 will mean an increase in annual revenue for the Department of Natural Resources. Revenue from the current \$5 annual fee has generated about \$1.0 M per year, on average, over the last five calendar years. The number of boats subject to the \$5 fee has fluctuated somewhat over the last five calendar years, from a low of 178,894 in CY 2001 to a high of 210,042 in CY 2003. The number of boats declined to 206,451 in CY 2005, with a five-year average of 202,659 boats. The estimated annual revenue increase is \$1.1 M. The fund affected is the Fish and Wildlife Fund.

Revenue in the Fish and Wildlife Fund, by statute, is used for the following purposes:

- (1) Protecting and propagating game, fish, and birds in Indiana.
- (2) Paying the operational expenses of the following:
 - (A) The fish and wildlife division.
 - (B) The law enforcement division.
- (3) Maintaining the automated point-of-sale licensing system implemented under IC 14-22-12-7.5. However, the amount that may be used under this subdivision during a fiscal year may not exceed the amount transferred on July 1 of that fiscal year under IC 14-22-4-6.

Money in the fund that is attributable to money deposited under IC 33-37-7-9 shall be used to administer the following:

- (1) The Turn in a Poacher program established under IC 14-9-8-23.
- (2) The reward system established under the program.

The new fee revenue from this bill is to be used first to cover the employer's portion of the Excise Police, Gaming Agent, and Conservation Officers' Retirement Fund. The remainder, is to be used for boating enforcement.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Gaming Commission; Alcohol Tobacco Commission (Excise Police); Department of Natural Resources.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF and the Excise Police, Gaming Agent, and Conservation Enforcement Officers' Retirement Fund, 317-576-1508; Major Sam Purvis, Law Enforcement Division, Department of Natural Resources, 317-2333847; Joyce Witt, Budget Analyst, Department of Natural Resources, 317-232-6404.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Funding - A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Funded Status- The ratio of assets of a pension plan to its liabilities.